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New Zealand

Fresh Deciduous Fruit

Semi-Annual Report

2008

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Report Highlights:

Late spring frosts negatively impacted on New Zealand's apple crop during the 2007/08 marketing year. As a result, apple exports are forecast to drop 19,000 tons with virtually all of this volume being used for juice production. Processors are reporting increased volumes of 15-20% this year. Exports are forecast to recover in marketing year 2008/09 to 270,000 tons and juice production is forecast at 110,000 tons, down from 125,000 tons in marketing year 2007/08.

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Section I. Executive Summary

The late spring frosts (October 2007) negatively impacted on New Zealand's apple crop during the 2007/08 marketing year. As a result, apple exports are forecast to drop 19,000 tons with virtually all of this volume being used for juice production. Processors are reporting increased volumes of 15-20% this year.

Looking ahead to MY 2008/09 production, it is not yet clear how orchardists will react to the low returns for Braeburn apples, especially the low prices during MY 2006/07, and the reduced yields during the autumn of 2008. It is expected that there will be continued tree removals this winter but there is no clear indication of the magnitude. Consequently, post has taken a somewhat conservative line regarding forecasts for production and export levels. It is expected at this stage that exports will recover and are forecast at 270,000 tons. Juice production is forecast at 110,000 tons, down from 125,000 tons in MY 2007/08.

The industry is continuing to search for ways to increase profitability. While some orchards are being replanted with new varieties, such as Jazz, it is not happening as fast as many in the industry would like. Vertical integration of the industry is an on-going trend.

There are several notable trends occurring in the New Zealand apple industry, including a reduction in grower numbers. The number of growers has fallen significantly from 1,600 in 2000 to approximately 400 in 2008. There is also a trend toward vertical integration with large packers integrating with exporters who are then leasing or buying orchards

Section II. Statistical Information

PSD Table

Country Commodity	New Zealand						(HA)(1000 TREES)(MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
Market Year Begin	USDA Official	Post Estimate 10/2006	Post Estimate New 10/2006	USDA Official	Post Estimate 10/2007	Post Estimate New 10/2007	USDA Official	Post Estimate 10/2008	Post Estimate New 10/2008
Area Planted (ha)	8766	10500	8766	8750	8750	8750	0	0	8750
Area Harvested (ha)	0	0	0	0	0	0	0	0	8500
Bearing Trees	0	0	0	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0	0	0	0
Total Trees	0	0	0	0	0	0	0	0	0
Commercial									
Production	441000	440000	441000	417000	417000	417000	0	0	422000
Non-Comm.									
Production	13996	25000	13996	16000	16000	16000	0	0	15000
Production	454996	465000	454996	433000	433000	433000	0	0	437000
Imports	1100	1000	1100	1000	1000	1000	0	0	1000
Total Supply	456096	466000	456096	434000	434000	434000	0	0	438000
Fresh Dom.									
Consumption	58000	56000	58000	58000	58000	58000	0	0	58000
Exports, Fresh	292096	290000	292096	270000	270000	251000	0	0	270000
For Processing	106000	120000	106000	106000	106000	125000	0	0	110000
Withdrawal From									
Market	0	0	0	0	0	0	0	0	0
Total Distribution	456096	466000	456096	434000	434000	434000	0	0	438000

PSD Table

Country Commodity	New Zealand						(MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
Market Year Begin	USDA Official	Post Estimate 10/2006	Post Estimate New 10/2006	USDA Official	Post Estimate 10/2007	Post Estimate New 10/2007	USDA Official	Post Estimate 10/2008	Post Estimate New 10/2008
Deliv. To Processors	106000	120000	106000	106000	106000	125000	0	0	110000
Beginning Stocks	0	0	0	1000	1000	1000	0	0	1550
Production	17710	20000	17710	18020	18020	21250	0	0	18700
Imports	7700	6000	7700	6000	6000	5500	0	0	5610
Total Supply	25410	26000	25410	25020	25020	27750	0	0	25860
Exports	8410	13000	8410	9020	9020	10200	0	0	8860
Domestic									
Consumption	16000	13000	16000	16000	16000	16000	0	0	16000
Ending Stocks	1000	0	1000	0	0	1550	0	0	1000
Total Distribution	25410	26000	25410	25020	25020	27750	0	0	25860

PSD Table

Country	New Zealand								
Commodity	Pears, Fresh								
	2006	Revised		2007	Estimate		(HA)(1000 TREES)	(MT)	
	USDA	Post	Post	USDA	Post	Post	2008	Forecast	Post
	Official	Estimate	Estimate	Official	Estimate	Estimate	Official	Estimate	Estimate
Market Year Begin		10/2006	10/2006		10/2007	10/2007		10/2008	10/2008
Area Planted	734	1000	734	735	735	735	0	0	735
Area Harvested	0	0	0	0	0	0	0	0	0
Bearing Trees	0	0	0	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0	0	0	0
Total Trees	0	0	0	0	0	0	0	0	0
Commercial Production	15086	6700	15086	14350	14350	14350	0	0	14350
Non-Comm. Production	500	500	500	400	400	400	0	0	400
Production	15586	7200	15586	14750	14750	14750	0	0	14750
Imports	2980	3000	2980	3700	3700	3400	0	0	3400
Total Supply	18566	10200	18566	18450	18450	18150	0	0	18150
Fresh Dom. Consumpt	10300	2000	10300	10300	10300	10300	0	0	10300
Exports, Fresh	5766	5900	5766	5750	5750	5450	0	0	5450
For Processing	2500	2300	2500	2400	2400	2400	0	0	2400
Withdrawal From Mkt	0	0	0	0	0	0	0	0	0
Total Distribution	18566	10200	18566	18450	18450	18150	0	0	18150

Section III. Production, Consumption, Trade, and Policy

Production

MY2007/2008

While the forecasts for total production in MY 2007/08 have been maintained at 433,000 tons, the frost, which covered the two main growing areas in Hawkes Bay and Nelson in October 2007, negatively impacted on fruit quality. Post has reduced its export forecast for MY 2007/08 by 19,000 tons. Juice processors expect to receive 15% to 20% more fruit, mostly the Braeburn variety, to process this year. Post has increased the volume of fruit diverted to processing by 19,000 tons, an 18% increase over MY 2006/07. Juice production is expected to reach 21,250 tons, up by 20% on MY 2006/07.

Pear production is expected to be unchanged from earlier estimates at 14,750 tons.

MY2008/2008 and Beyond

Production in MY 2008/09 will partly depend on the number of trees removed this year during June and July. At this stage, there is no clear indication of how many hectares of trees will be removed. The continued poor returns for Braeburn and Royal Gala varieties, which comprise approximately 70% of production, mean orchardists are looking very closely at whether it is profitable to keep growing these varieties. Some are planting new varieties, such as Jazz and Tentation, and production of these varieties is expected to grow steadily over the next few years. At this stage, post has taken a conservative view and estimates there will be less than a 1% increase in production to 437,000 tons of apples produced in MY2008/09, with 270,000 tons going to export and 110,000 tons for processing.

While the new varieties already in the marketplace are profitable, there are several factors that temper a wholesale switch to new varieties. It is very expensive to replant and endure the time delay before production is economic. However, with intensive planting (+2000 trees/ha) on dwarf rootstocks, production is generally underway within two years of planting and is economic in four to five years versus double that under the semi-intensive systems.

The pipfruit industry's strategic review suggested replanting needs to achieve a rate of 10% to 15% per annum. At the moment, it is 7% in Hawkes Bay and 6% in Nelson – the two major growing regions.

For those orchards growing Braeburn and Royal Gala apples that opt not to replant with new varieties, there are still opportunities. Industry experts recommend careful analysis of each block within orchards to identify areas where small sizing and poor quality is habitual. Then either these blocks can be grown only for juicing, with a consequent reduction in orchard costs, and some profit, or orchard management can be changed to improve returns. One option is conversion to organic production methods. Approximately 10% of New Zealand apple orchard area is already organic. While carton equivalent returns fell from NZ\$50-55 (USD 38.50-42.35) in MY 2005/06 to NZ\$35 (USD 26.95) in MY 2006/07, this was still a profitable option. It is likely that organic area will continue to increase.

There are several notable trends occurring in the New Zealand apple industry, including a reduction in grower numbers. The number of growers has fallen significantly from 1,600 in 2000 to approximately 400 in 2008. There is also a trend toward vertical integration with large packers integrating with exporters who are then leasing, buying, or participating in joint ventures at the orchard level. ENZA (the former Apple and Pear Marketing Board's single desk marketing brand), which markets apples for approximately 250 growers, leads the vertical integration trend. Because it owns the proprietary rights to the Jazz variety, it

controls the planting of this variety and helps qualified growers with financing to replant. To achieve its overseas marketing goals, ENZA also produces Jazz apples in France, Chile, the United Kingdom and Washington State in the United States.

Two New Apple Varieties Announced

Hort Research, a crown (e.g. government) research institute, together with the Johnny Appleseed Company, has announced the commercialization of a new golden apple, a cross between Royal Gala and Braeburn. In addition, ENZA has announced its new variety, Envy, which is a further development of the Jazz apple.

Labor in Short Supply

Orchardists through out the country are facing labor shortages, especially for seasonal workers. With New Zealand's unemployment rate at a historical low of 3.4 to 3.5%, there are few New Zealanders looking for seasonal work. Horticulturalists have brought in seasonal workers from other Pacific countries, such as Vanawatu and Samoa, under a New Zealand Government sponsored program.

Consumption

New Zealand domestic consumption levels are forecast to remain stable.

Trade

MY2007/2008

Post has revised the export forecast downward to 251,000 tons, a 14% decline from MY 2006/07 levels. The decline is largely attributable to quality problems stemming from the frosts in October 2007 and fruit being diverted to juice production.

Apple juice exports are likely to increase by 21% over MY 2006/07 levels (a 13% upward revision from the December 2007 estimate). However, ENZA Foods, the largest juice processor accounting for between 65 and 70% of domestic production, will likely reduce imports rather than boost exports and sell more of its production on the local market. Post now forecasts juice imports at 5,500 tons, a 29% decline from MY 2006/07.

Industry observers suggest that markets in the northern hemisphere offer good export prospects this year for New Zealand apples. Prices for the Cox and Royal Gala varieties are above CY 2006 price levels. Also, the New Zealand dollar is starting to depreciate a little and, if this trend continues, it will help exporters achieve better returns back in New Zealand.

Pear exports are likely to fall slightly to accommodate domestic demand.

MY2008/2009

Apple exports should rebound in MY 2008/09 to the levels post originally forecast in December, 2007, assuming reasonable climatic conditions. At the estimated production levels, juice production in MY 2008/09 is likely to fall and correspondingly export volumes are forecast to drop to approximately 8,860 tons. Import levels are forecast to remain relatively constant.

With the strong New Zealand dollar, the relatively poor prices during CY 2007, and upward pressure on growing and packing costs, it is not surprising that there has been a lack of confidence in New Zealand regarding the outlook for the sector. However, some believe the tables are starting to turn and New Zealand's competitive position vis a vis other suppliers, including China, is improving. Some in the industry believe that, if New Zealand can start to

take better advantage of new varieties, resolve its product quality issues, and make sure logistics to its markets are orderly and controlled, then coupled with the anticipated depreciation of the New Zealand dollar, profitability within the sector will improve and exports will stabilize, if not increase to 285,000 tons to 300,000 ton per year in the medium term.

Policy

Apple Futures Project

This project, announced by the New Zealand Government in July 2007, is a partnership between the Hawkes Bay, Nelson and Otago regions, Pipfruit New Zealand and New Zealand Trade and Enterprise. Government funding of NZ \$2 million will be supplemented by NZ \$667,000 from the pipfruit industry. The funding will be used to employ a national project manager and three technical staff to rollout a program of refined orchard management techniques in the participating regions. This includes more intensive plantings to make it easier to grow fruit that complies with international pest and disease regulations, wider use of biological controls, and education about how to reduce pesticide use. The project is expected to increase the annual value of exports from the industry by \$152 million after five years by achieving an outcome of no detectable pesticide residues. This is expected to give growers a stronger competitive edge in markets where environmental considerations are becoming increasingly important.

WTO Apple Case

The Australian market has been closed to New Zealand apples since 1921, when fire blight was discovered in New Zealand. Since 1986, New Zealand has sought actively to have the ban lifted, because studies have found no scientific evidence that fire blight can be transmitted through commercially traded apples.

In November 2006, Biosecurity Australia responded to New Zealand's fourth request for access, issuing the Final Import Risk Analysis Report for Apples from New Zealand. The Final IRA recommended that imports of apples from New Zealand be permitted, subject to a range of phytosanitary and risk management measures.

On March 27, 2007, Australia's Director of Animal and Plant Quarantine issued a policy determination confirming the conditions in the Final IRA. From New Zealand's standpoint, many of the risk management measures imposed by Australia in the Final IRA were not justified by science, in particular those relating to fire blight and European canker and one insect pest (apple leafcurling midge). Consequently, on August 31, 2007, New Zealand requested consultations with Australia under Article 11 of the SPS Agreement and Article 4 of the WTO dispute settlement process. The consultations took place in Geneva during October 2007, but failed to resolve the dispute. On December 6, 2007, New Zealand requested the establishment of a WTO panel and the panel was established in January 2008.

On March 13, 2008, Australia lodged a request for a preliminary procedural ruling from the Panel, claiming that New Zealand's request for the establishment of a panel was inconsistent with Article 6.2 of the WTO dispute settlement understanding. Australia alleges that New Zealand's panel request does not identify the specific measures at issue, and does not provide a brief summary of the legal basis of New Zealand's complaint sufficient to present the problem clearly. New Zealand filed a response to these claims on April 7, 2008. Australia lodged a second submission on the procedural issue on April 14, 2008.

Country of Origin Labeling (CoOL)

New Zealand tends to favor a voluntary rather than mandatory system of country of origin labeling (CoOL) for domestic foods. Internationally, New Zealand opposes CoOL and has voiced opposition to Bills in the US and Canada proposing mandatory labeling for imported meat claiming that it will act as a barrier to trade and will add unjustifiable costs to New Zealand products. However, the apple industry is one sector that supports CoOL and is working toward mandatory labelling in New Zealand.

Previous GAIN Reports Submitted by the Agricultural Affairs Office Wellington, New Zealand		
NZ8007	New Zealand Announces FTA with China	April 17, 2008
NZ8006	Livestock and Products March 2008 Update	March 27, 2008
NZ8003	Impact of the Drought on New Zealand Milk Production	March 11, 2008
NZ8002	HRI Food Service Sector	March 4, 2008
NZ8001	Bio-Fuel Developments in New Zealand	Feb 25, 2008